

Message Text

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ACTION EB-07

INFO OCT-01 ARA-06 IO-10 ISO-00 CIAE-00 DODE-00 INR-07

NSAE-00 PA-01 USIA-06 PRS-01 SP-02 TAR-01 INT-05

AID-05 NSC-05 CIEP-01 SS-15 STR-04 OMB-01 CEA-01

COME-00 FRB-03 XMB-02 OPIC-03 LAB-04 SIL-01 AGR-05

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FM AMEMBASSY MEXICO

TO SECSTATE WASHDC 8885

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DEPT OF TREASURY

ALL CONSULATES MEXICO

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E.O. 11652: N/A

TAGS: EGEN ETRD MX

SUBJECT: GOM PROGRAM TO REDUCE TRADE DEFICIT AND STIMULATE
DOMESTIC OUTPUT

REF: MEXICO 6257

1. MEASURES ANNOUNCED OVER WEEKEND AND REPORTED IN REFTEL
REPRESENT INTENSIFICATION OF EXISTING POLICIES, I.E.,
IMPORT LICENSING AND IMPORT SUBSTITUTION RATHER THAN RADICAL
POLICY SHIFTS. THEY REFLECT CONCERN OVER GROWING CURRENT
ACCOUNT DEFICIT AND APPARENT DECLINE IN RATE OF GROWTH OF
GROSS DOMESTIC PRODUCT (GDP). BECAUSE OF VAGUENESS OF
PROGRAM AS ANNOUNCED, ITS IMPACT IS DIFFICULT TO PREDICT,
BUT IT MAY BE A MEANS TO INCREASE PUBLIC SECTOR SPENDING
TO BOOST OUTPUT AS MUCH AS A POLICY TO REDUCE GROWING TRADE
DEFICIT. ANY SUBSTANTIAL DECREASE IN IMPORTS WOULD IMPACT
ON DOMESTIC GROWTH RATE. ON THE OTHER HAND, ANY FURTHER INCREASE
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IN PUBLIC SECTOR EXPENDITURES IS LIKELY TO AGGRAVATE INFLATION

WHICH WAS RUNNING AT ABOUT ONE PERCENT A MONTH THROUGH MAY.

2. MEXICO'S CURRENT ACCOUNT DEFICIT IN FIRST QUARTER OF 1975 WAS \$781 MILLION COMPARED TO \$860 MILLION AND \$290 MILLION IN FOURTH AND FIRST QUARTERS RESPECTIVELY OF 1974. SUBSTANTIAL INCREASE IN DEFICIT FROM FIRST QUARTER 1974 TO FIRST QUARTER 1975 DUE IN PART TO TRADE DEFICIT WHICH INCREASED \$243 MILLION. EXPORTS IN FIRST QUARTER 1975 WERE BELOW THOSE IN ALL QUARTERS SINCE 1973. REST OF INCREASE DUE TO DECLINE IN VALUE ADDED BY IN-BOND ASSEMBLY PLANTS, TOURISM RECEIPTS AND "OTHER" EARNINGS ON CURRENT ACCOUNT IN ABSOLUTE TERMS AND/OR IN RELATION TO INCREASE IN CURRENT ACCOUNT EARNINGS.

3. CURRENT ACCOUNT DEFICIT COVERED BY MEDIUM AND LONG-TERM CAPITAL INFLOWS OF \$498.8 MILLION PLUS POSITIVE ERRORS AND OMISSIONS FIGURE OF \$378.1 MILLION. LATTER FIGURE ATTRIBUTED IN LARGE PART TO NET INFLOWS OF SHORT-TERM CAPITAL ATTRACTED BY MEXICAN INTEREST RATES WHICH WERE, AND REMAIN, SUBSTANTIALLY ABOVE DOLLAR INTEREST RATES.

4. AS HAS BEEN REPORTED EARLIER (SEE MEXICO A-242) WE HAVE BEEN FORECASTING A CURRENT ACCOUNT DEFICIT OF ABOUT \$3 BILLION FOR 1975. GOM ECONOMISTS CONFIRMED THIS FIGURE IN PRIVATE CONVERSATIONS ONLY LAST WEEK. WHILE LARGER DEFICIT IS OF CONCERN, IT SEEMED TO BE WITHIN MEXICO'S FINANCING CAPABILITIES, PARTICULARLY IF THE INFLOW OF SHORT-TERM CAPITAL CONTINUES. THUS, IT IS NOT CLEAR HOW MUCH NEW PROGRAM REFLECTS CONCERN OVER ACTUAL BALANCE OF PAYMENTS SITUATION AS COMPARED TO WIDESPREAD CRITICISM OF WIDENING DEFICIT AND INCREASED RELIANCE ON FOREIGN CAPITAL. IN ANY CASE, NEW PROGRAM DOES SEEM TO INDICATE THAT GOM DOES NOT EXPECT OIL EXPORTS TO BE A SOLUTION AT LEAST IN SHORT-TERM. CRUDE OIL EXPORTS IN FIRST QUARTER WERE REPORTEDLY ONLY \$54 MILLION.

4. FORECASTS OF REAL GDP GROWTH FROM 1974 TO 1975 WHICH HAD BEEN 5 PERCENT AT BEGINNING OF YEAR ARE BEGINNING TO BE REDUCED. SOME ECONOMISTS HAVE BEEN SAYING GROWTH WOULD BE ONLY 3 PERCENT, AND ONE GROUP MAINTAINS REAL LIMITED OFFICIAL USE

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OUTPUT DECLINED IN FIRST QUARTER BUT THERE ARE NO OFFICIAL FIGURES ON QUARTERLY GDP. RECESSION IN U.S. PROBABLY MAIN FACTOR IN REDUCED GROWTH RATE FORECASTS BUT CONTINUED STAGNATION OF PRIVATE INVESTMENT ALSO IMPORTANT.

5. WHILE PROGRAM APPEARS DESIGNED TO IMPACT MORE ON TRADE DEFICIT, LOPEZ-PORTILLO'S COMMENTS AS REPORTED IN NEWSPAPER IMPLY GREATER CONCERN WITH THE DOMESTIC ECONOMY

THAN THE TRADE BALANCE. AS ANY ATTEMPT TO REDUCE IMPORTS- OTHER THAN NON-ESSENTIAL CONSUMER GOODS WHICH ARE NOT VERY GREAT ANYWAY - WOULD IMPACT ON THE DOMESTIC GROWTH RATE, IT SEEMS MORE LIKELY THAN NOT THAT PROGRAM IS DESIGNED TO RESPOND TO DOMESTIC CRITICS OF TRADE DEFICIT AND EXTERNAL BORROWING WHILE COVERING A BOOST IN PUBLIC SECTOR SPENDING TO INCREASE GROWTH RATE, EMPLOYMENT, AND, RATE OF INFLATION.

6. PROMINENTLY PRESENT, BUT APPARENTLY SILENT AT PRESS CONFERENCE WAS FERNANDEZ-HURTADO, DIRECTOR GENERAL OF BANK OF MEXICO. HE MADE SPEECH ON THURSDAY, JULY 10, WHICH, FROM NEWSPAPER REPORTS, WAS CRITICAL OF GOM, ATTRIBUTING RAPID INCREASE OF IMPORTS TO DEFICIT SPENDING OF GOM AND CALLING FOR INCREASED DOMESTIC SAVINGS. THERE WERE ALSO RUMORS ON FRIDAY THAT HE WAS RESIGNING. WHILE ONE INTENT OF NEW PROGRAM IS TO DIVERT SPENDING ON CONSUMPTION TO INVESTMENT, PROGRAM DOES NOT YET CONTAIN ANY MEASURES THAT WOULD INCREASE DOMESTIC SAVINGS AND INVESTMENT.

7. EFFORTS TO REDUCE OVERALL LEVEL OF IMPORTS, OR AT LEAST RATE OF GROWTH, AND ALTER COMPOSITION OF IMPORTS WILL UNDOUBTEDLY AFFECT INDIVIDUAL U.S. EXPORTERS. AMONG THESE WILL BE EXPORTERS TO BORDER TOWNS; ALSO, CAMPILLO SAINZ SAID THAT IMPORTS OF AIRPLANES, YACHTS AND HELICOPTERS WOULD BE CURTAILED. WE WILL REPORT FURTHER AS BETTER INFORMATION ON SPECIFIC ACTIONS ON IMPORT PERMIT REQUESTS BECOME AVAILABLE. JOVA

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